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Chair

Ms. Yasmin Ratansi

Standing Committee on Government Operations and Estimates

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• (1535)

[English]

The Vice-Chair (Mr. Chris Warkentin (Peace River, CPC)): I call to order meeting 12 of the Standing Committee on Government Operations and Estimates.

This afternoon we'll have testimony provided pursuant to Standing Order 108(2) on the study our committee is engaging in on federal buildings maintenance contracts.

Today we have a witness, and we'll provide him an opportunity to provide testimony to the committee. We'll begin and have questioning for the first hour. Then we'll pursue a different study in the second hour.

We have Monsieur Beaulieu before us today. We want to welcome him to our committee. He is a building science consultant, I believe.

We'll turn it over to you to provide testimony now, and we'll follow with questions.

Welcome.

[Translation]

Mr. André Beaulieu (Building Science Consultant, CABA Building Consultants Inc.): Thank you, Mr. Chair. Good afternoon everyone. I am not used to making presentations before committees. I hope that everything will go well and that the next hour will be enjoyable and, in particular, rewarding. That is the point of this exercise.

I am here to help you learn about and understand the process through which consultants go in order to provide services to the federal government and, in particular, to help you manage and maintain the federal government's buildings and properties.

I will introduce myself. My name is André Beaulieu. I am an engineer and I head up a firm that specializes in building envelopes. In case you are wondering, the building envelope is everything that makes up the exterior shell of the building. It is not structural, but rather everything that protects the building from the outside elements, such as rain and snow. So this means stone siding, brick siding, roofing, vinyl siding, and so on. It consists of all the outside components. So my firm specializes in that area and currently provides services to the government through SNC-Lavalin.

We have worked on nearly all the major buildings in the region, including Esplanade Laurier, Terrasses de la Chaudière, phases I, II, III and IV of Place du Portage, the Jeanne-Mance Building and the Jean-Talon Building. So we have worked on major buildings, and we

are working in cooperation with SNC-Lavalin, which currently manages the building maintenance.

My intention here today is not to penalize or blame anyone or to criticize the operations or approach used by SNC-Lavalin. What I do want to do is to shed some light for you on how SNC-Lavalin manages building maintenance for the federal government.

I mention SNC-Lavalin because, as you are no doubt aware, that company is managing the buildings, but it is not the first company to do so. Through Public Works Canada, the federal government held a bidding process in 1999. Through that process, the firm BLJC was awarded a contract to manage the government's buildings. That company was later replaced by SNC-Lavalin, which currently manages the maintenance of the federal government's real property across Canada, but more specifically in this region. That is where my concern and interest lie. I do not think that the rules are any different for the rest of the country, since this same company is managing all of the real property.

SNC-Lavalin, which has been tasked by Public Works Canada through a bidding process to manage the maintenance of the federal government's buildings, hires the services of professionals. SNC-Lavalin is a maintenance manager and therefore requires the assistance of engineering firms, architectural firms and firms specializing in building construction, repair and maintenance.

To that end, SNC-Lavalin has us sign contracts and service agreements for a limited period. In our case, the agreement with SNC-Lavalin has just been renewed until 2013. So SNC-Lavalin gives us a contract, tells us that we are an accredited consultant and that we have the knowledge, skills and everything necessary to do business with SNC-Lavalin and assist it with maintenance management.

That said, when we have a contract with SNC-Lavalin, it is clearly indicated that there is no obligation, despite the contract, to provide us with any work. Our services may be called for at some point. So SNC-Lavalin has no obligation to us and is not required in any way to retain our services to prepare plans, specifications, appraisals or anything else involved in building maintenance.

It means that, from the time it awards us a contract, SNC-Lavalin has total responsibility—up to now, as far as we know—for federal government real property maintenance and carries its mandate out secretly. I say “secretly” because nothing is known about the contract between SNC-Lavalin and Public Works Canada. We don't know if SNC-Lavalin is required to call for tenders to procure professional services. We do not know if it is required to call for tenders regarding the fees for professionals to assist it with its management activities. So when SNC-Lavalin does deign to hold a bidding process, no one—except SNC-Lavalin—knows how much the bids are, which companies are called on to bid and what the outcomes are.

That means that SNC-Lavalin can decide to ask professionals to bid by invitation only. Only SNC-Lavalin knows the identity of these professionals. It can then decide to award the contract to one of the firms that it has invited to submit a bid. Only SNC-Lavalin knows which firms submit bids and what the outcome of the process is.

I am not saying that this is the case, but you can understand that this kind of process could easily open the door to cronyism and kickbacks. Everything is secret, nothing is disclosed, nothing is known. We have no idea of the rules governing SNC-Lavalin under its contract with Public Works and Government Services Canada. We did know the rules when we dealt with Public Works and Government Services Canada. We have had a number of contracts with Public Works and Government Services Canada, and we knew what the rules were. We knew that Public Works and Government Services Canada could award contracts directly to a consultant if the fees were under \$25,000. With SNC-Lavalin, we know nothing. With Public Works, we knew that if the contract was for a certain amount, there had to be a public call for tenders. With SNC-Lavalin, we have no idea whether that is the case.

So we are completely in the dark and have no idea whether our services have been retained. When SNC-Lavalin does retain our services, we do not know what process was used. Recently, there was work to be done on the Louis-St-Laurent Building, which is 1.5 kilometres from our office. We know the SNC-Lavalin building manager. So we asked if there was some work to be done, and we were told that a roofing consultant would be needed. That was good news, since that is our specialty. We are only 1.5 kilometres away and we have already done business with them.

We were told that we would be called on to submit a bid. However, the next thing we knew, the contract had been awarded to a Montreal firm. We heard nothing about any bidding process. We do not know why we were not invited to submit a bid. So the government's building may be well managed or poorly managed, but we are in the dark. Anything that is not transparent has a tendency to get dirty.

We want to help the federal government manage its buildings properly and do so at a reasonable cost. My only objective here today is to ensure the government's money is spent properly, and in particular, fairly.

● (1540)

[English]

The Vice-Chair (Mr. Chris Warkentin): Thank you, Mr. Beaulieu. We appreciate your testimony.

Committee members, I know that many of you recall that we'd also invited SNC-Lavalin and Public Works and Government Services Canada, but whereas they were intended to come before, they'll probably come later. I know some of you had queried whether they were coming and what happened to the invitations. It was because of our scheduling that they were bumped to a later date. So I leave you with that.

We'll start with the Liberals for the first round. I believe it's Ms. Hall Findlay for the first round of eight minutes.

[Translation]

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you, Mr. Chairman.

Mr. Beaulieu, I want to thank you for being here with us today.

You heard the chairman say that we needed to hear testimony from people at SNC-Lavalin and Public Works and Government Services Canada. Now, my questions deal with the management of contracts by SNC-Lavalin, and I would really like to talk to the Public Works and Government Services Canada officials who manage the real property maintenance contracts for the federal government.

Could you tell us about the contracts that you have signed with SNC-Lavalin? You said that you did not have much information about what SNC-Lavalin does for Public Works and Government Services Canada, but only about what SNC-Lavalin asks you to do for that firm.

Were you awarded the contract with SNC-Lavalin as the result of a bidding process? Was it only because you knew people? Could you explain the process that you followed in obtaining the contract with SNC-Lavalin? You may have talked about it, but could you tell us whether you have signed contracts directly with Public Works and Government Services Canada?

Mr. André Beaulieu: I will try to answer as simply but as completely as possible.

I said earlier that SNC-Lavalin had been contracted by the federal government to manage building maintenance. It is playing a management role. So the company called on professionals to assist it in preparing the technical documents. Before any work is undertaken, whether we are talking about renovating Parliament or building a road, a professional has to prepare technical documents. That professional is hired by SNC-Lavalin. Once the documents are prepared, SNC-Lavalin holds a public bidding process to select the firms that will carry out the work indicated in the document prepared by the professional.

The problem is that there is no process requiring SNC-Lavalin to deal with professionals, as far as I know. I have been in business for 30 years, and I may have forgotten a few things. The contract that I

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● (1545)

Ms. Martha Hall Findlay: Is the contract management process left to the discretion of SNC-Lavalin?

Mr. André Beaulieu: I will give you an example. Projects involving work, repairs and maintenance to be carried out are generally listed on the government's electronic tendering system called MERX. If you consult MERX, you will see that SNC-Lavalin regularly lists construction and repair contracts for federal government buildings across Canada. In almost all cases, the technical documents need to be prepared by professionals before the work begins. However, despite the fact that the work projects are up on the MERX site, I hardly ever see a call for tenders for professional services to prepare the technical documents required before the work is undertaken. How are those professionals selected? To my knowledge, that is the biggest problem.

There are some 10 SNC-Lavalin building managers in this region. I would have to go see them every day and ask whether there were any projects or professional services corresponding to my area of expertise. That would be a full-time job. It is not how things should work. If I do not know who needs to have painting done, how can I offer my services as a painter?

The work that the federal government needs done should be made public. That way, professionals could prepare technical documents required for the work, which would then be done properly. The way things stand now, there are no rules governing how professionals are hired, at least as far as I know. SNC-Lavalin may be applying rules or may have signed an agreement with Public Works Canada. If so, the agreement is being kept well hidden. In my opinion, it has never been put into effect. I have had a lot of work from SNC-Lavalin and contracts from Public Works Canada, but every time, it has been a matter of going to the project manager and insisting that it was my turn to get a contract. Then I was asked to bid. It is rarely because the work was listed on MERX that my services have been called for.

Ms. Martha Hall Findlay: I would like you to clarify something. You stated that the contracts you obtained directly from Public Works and Government Services, without going through SNC-Lavalin, were not granted through MERX?

Mr. André Beaulieu: Now that SNC-Lavalin is in the picture, it is practically impossible to obtain contracts from Public Works Canada. That is it. It is SNC-Lavalin that manages the entire building inventory of Public Works Canada. Only when the costs involved are higher than a certain amount is SNC-Lavalin no longer responsible for this management. But we don't know what that amount is for the time being. If the fees to be paid to the professional are a certain amount, then SNC-Lavalin loses management of the project and it becomes the responsibility of Public Works Canada. But regardless of the case, the amount that triggers this responsibility transfer is not known. SNC-Lavalin manages all the contracts. We no longer have any contracts with Public Works Canada. It would be different if professional services for the construction of a second Parliament building were required, because this would require fees of several billions of dollars. In other words, Public Works Canada manages SNC-Lavalin, which in turn manages building maintenance.

Ms. Martha Hall Findlay: Did you sign contracts directly with Public Works and Government Services Canada in the past?

• (1550)

Mr. André Beaulieu: Yes, we did.

Ms. Martha Hall Findlay: But you don't anymore.

Mr. André Beaulieu: Yes, all that is over now. To my knowledge, maintenance contracts are granted exclusively to SNC-Lavalin.

Ms. Martha Hall Findlay: There are other companies that oversee the maintenance of the federal buildings, aren't there? It is not just SNC-Lavalin.

Mr. André Beaulieu: To my knowledge, there is only SNC-Lavalin.

Ms. Martha Hall Findlay: Is that the case for all federal buildings?

Mr. André Beaulieu: I believe SNC-Lavalin manages 319 buildings.

Ms. Martha Hall Findlay: So building maintenance is managed entirely by SNC-Lavalin.

My time is up, but I would like to thank you.

[English]

The Vice-Chair (Mr. Chris Warkentin): Monsieur Nadeau is next, for eight minutes.

[Translation]

Mr. Richard Nadeau (Gatineau, BQ): Thank you, Mr. Warkentin.

Good afternoon, Mr. Beaulieu.

SNC-Lavalin manages 319 buildings in the Ottawa and Montreal regions and in other places. These are large buildings. There are more buildings than that throughout Canada because they are of all different kinds. Here we are referring to large buildings in the federal capital region. One hundred and thirty-eight thousand of Canada's 522,000 government employees are in this region. These office buildings allow federal government workers to do their job.

Mr. Beaulieu, I would like you to know that on September 2, 2009, I wrote a letter to Minister Paradis, who was responsible at the time for Public Works and Government Services Canada. I wrote the same letter again on March 15 when Ms. Ambrose became the minister responsible for PWGSC, and I wrote again to Ms. Ambrose on this topic on April 13.

I am the member for this region. Therefore, the problem that you have raised here is frequently mentioned by small- and medium-sized enterprises and by larger firms. It's not transparent. There is something strange going on for building specialists. In the Outaouais region on the Quebec side, we are even more heavily penalized if we compare Gatineau to Ottawa. Only 1.4% of contracts are awarded to Gatineau businesses, whereas 98.6% of these contracts are awarded on the Ottawa side, which is absolutely shameful. And yet, there is much more expertise on the Quebec side, and you are a representative of this.

I hope this gives people an idea of what is going on. I presume that the people from PWGSC and from SNC-Lavalin are listening. I especially hope that the people from PWGSC are listening because we're talking about elected officials. The minister is responsible for PWGSC, not for SNC-Lavalin.

If I understand correctly, this is about awarding contracts. Now, contracts are awarded upon invitation by SNC-Lavalin. Certain businesses, specialists or engineers are invited to bid. These are no longer public calls for tender. So we're going from a public system paid for by the taxpayers to a non transparent system where SNC Lavalin issues invitations to companies it selects, as if it were the owner of all these buildings, the federal government's building inventory.

We are currently following up on a lead. We heard things in March concerning certain invoices. Apparently, it cost \$5,000 to replace six lightbulbs under the contracts awarded by SNC-Lavalin to certain people. And we don't know how they were awarded, Mr. Chair.

There was a \$36,000 invoice for office cleaning. This was to clean the offices of federal ministers. Two thousand dollars was paid for green plants—I don't know what was so special about them—and up to \$1,000 was paid to install doorbells. It's absolutely appalling. It's unacceptable.

What do you understand from this system? On the one hand, there is a public method of awarding contracts, and on the other hand, there are invitations issued to bid on contracts.

Mr. André Beaulieu: What we want to find out are the rules that govern the government, and especially those that govern Public Works and Government Services Canada and SNC-Lavalin. Obviously, PWGSC is a serious, organized and structured organization that has existed for a very long time and has experience in overseeing maintenance of federal government buildings. PWGSC looked after this until 1999, when it was decided to transfer this responsibility to the private sector.

The problem is that no one knows what is in the contract signed between SNC-Lavalin and PWGSC. No one knows what the rules governing the awarding of contracts are. We do not know what rules or process SNC-Lavalin uses to hire professionals, launch a public call for tenders, or launch an invited tender. In the case of a public call for tenders, everyone knows there is a contract to be awarded and people will be interested in offering their services. If a certain party doesn't obtain the contract, it may be because it did not offer acceptable services or an acceptable price.

If we don't know the process SNC-Lavalin uses to hire professionals and award contracts, it is difficult to offer one's services or assess the quality and costs of the services offered. We just do not know. If the people from SNC-Lavalin are the only ones who know the rules, how can we who wish to offer our services be sure we are following them?

• (1555)

Mr. Richard Nadeau: Did you put these questions to the people at SNC-Lavalin?

Mr. André Beaulieu: We only deal with project directors at SNC-Lavalin. We work regularly with them. They are people we know well, to whom we provide services and who use our services regularly.

On Friday, I asked one of the project directors at SNC-Lavalin what the rules are that govern them. I asked her what the process was, for example, for a contract that had been awarded to a Montreal firm and why we had not been invited to bid. She told me that she

was not authorized to disclose the rules or the process used or to explain how things worked or why people do and do not have to bid. If you give me a contract, but you don't tell me what its parameters are or what rules I must follow, it is hard for me to provide services in accordance with the price that I will bid.

It is too bad, because when PWGSC managed the federal government buildings, the rules were better known and more clearly defined. I do not know what happened when the contract was transferred to SNC-Lavalin, but some rules got lost along the way. Certain words disappeared from contract documents. This means we are now in the dark. It is all managed by the private sector.

I am not saying that SNC-Lavalin is a bad company, but it is working in the dark, and that means that we do not know the value of our work.

Mr. Richard Nadeau: If I understand correctly, you are not the only specialist in siding and building envelopes. In your opinion, does this situation affect the entire profession? There are all kinds of things in a building. Electricity, changing the carpets, installing water, buying the furniture, windows, etc., all of these things have to be dealt with. Does this affect everything that is found in a building or does it only affect certain aspects of building maintenance?

Mr. André Beaulieu: It is an issue of all aspects of building maintenance, whether you are talking about structural parts, the mechanical systems, the ventilation system, the lighting system, maintenance and replacement of carpets, the parquet, replacing the roof, masonry work, painting, the structure, the exterior, the roof. In fact, everything concerning building maintenance is managed by SNC-Lavalin. All contracts are awarded in complete obscurity, which means that it is practically impossible to know what their value is.

[English]

The Vice-Chair (Mr. Chris Warkentin): Thank you, Mr. Nadeau.

We'll move on to Mr. Gourde.

[Translation]

Mr. Jacques Gourde (Lothinière—Chutes-de-la-Chaudière, CPC): Thank you very much, Mr. Chairman.

Mr. Beaulieu, thank you for being here.

I understood that you are a business owner and that you have been working on contract for Public Works and Government Services for at least 30 years. Is your business specialized in exterior building envelopes? Tell me a bit more about your business.

Mr. André Beaulieu: In fact, my business specializes in assessing the state of the exterior shell of buildings. For example, we studied the state of the marble cladding of the walls at l'Esplanade Laurier; we studied all of the brick siding on the Terrasses de la Chaudière; we studied all of the exterior siding of the buildings of phases I, II, III and IV of Place du Portage; we have studied all of the buildings, such as the Promenade building on Sparks Street or another example is the Jeanne-Mance building. Currently, we have a contract with Brookfield Renewable Power Inc—perhaps you know them—to assess the state of all of their dams on the du Lièvre river. We are therefore a business specializing in the study of the behaviour and degradation of building sidings.

In the Outaouais region, we know that the buildings are not young—particularly the one in which we find ourselves today. As a result, there is maintenance that must be done on these buildings. We must repair what is particularly subjected to inclement weather, such as stone or brick, that is to say everything that may freeze, thaw, and crack. This will require maintenance. The firm that I manage is a company of engineers specialized in this area. We assess the state of the exterior siding of a building, we say what repairs are required, and we prepare documents for the work to be done and manage that work. We do not do the work. We are like the building doctors, if you will.

• (1600)

Mr. Jacques Gourde: You submit your report to...

Mr. André Beaulieu: We submit it to the client. In the case of SNC-Lavalin, they retain our services and ask us to assess the state of the walls of the Parliament buildings in Ottawa, for example. In that case, we would send a team that would go up on scaffolding to study the walls and check if the pointing in the stonework is solid. In the end, after a month or two, we would submit quite a detailed report on the state of the Parliament buildings and we would give our recommendations on the repairs to be done.

Currently, we have just completed a study on the brick siding on the Hull hospital—this is a building that is some 60 years old—and we submitted a report to them on the state of the exterior siding, the work required and its cost. Therefore, we study the building, we diagnose the problems, and provide information on the repairs to be done and the cost of doing them.

Mr. Jacques Gourde: Do you think that doing business with specialists such as yourself to undertake these studies is more profitable for the Government of Canada than having their own engineers within Public Works and Government Services?

Mr. André Beaulieu: Absolutely, because we are bound by the obligation to perform.

Currently, we are dealing with the National Research Council of Canada, where a building will be renovated. As we have been hired to do the drawings for all the outer walls—which are made of glass—we met with the people from the council. When they presented us with their documents and drawings, we explained to them that their plan had faults and shortcomings. They told us that they had nevertheless spent two years drawing them. A private business would have drawn those plans in six months and there would probably have been fewer flaws. The people at the council have more time; they are not obliged to be profitable when they do a drawing. Therefore, they can take much more time, that is not a problem. They can stretch that out over several years. But for a private business, there is an obligation to be accountable.

For example, if you ask me for a quote to examine your house and I tell you it will cost \$1,000, I cannot spend six months with you because I am only charging you \$1,000. I must therefore be cost-effective. If I tell you it will be \$1,000, I will do the work within a week so that it will not be too costly and so that you will have good performance.

Therefore, because of this obligation to be accountable, it is always more beneficial and cost-effective for government organizations to do business with private businesses.

Mr. Jacques Gourde: It is no doubt the same thing for those who implement your reports. Will the workers who use your reports, your suggestions and your expertise be more efficient than employees who work full-time for the government?

Mr. André Beaulieu: It is the same thing for a business; it is an issue of accountability. When they bid on a job, the less time it takes, the more profitable it will be, the more it will be cost-effective. In any case, they will have technical documents to follow. They will therefore be obliged to follow those documents that have been prepared in order to do the repairs.

Mr. Jacques Gourde: You indeed experienced the period before SNC-Lavalin and after. Have your business's sales gone down since that time?

Mr. André Beaulieu: No, I cannot say that my sales have gone down. What is much weaker is the relationship we have with the managers. The biggest difference is that before, we knew if we had contracts and why if we did not. Now, what we do not know is what contracts we are not getting, what contracts we might have had as well as what contracts we did not get and why we did not get them.

Finally, the biggest difference is that before, we worked in the light of day. Now, we are obliged to buy a hat with a head lamp so that we will be able to work in the dark because we work in the greatest obscurity.

Mr. Jacques Gourde: In the end, you are saying that there is lot more uncertainty as far as being awarded contracts is concerned. Do you have any way of getting around...

Mr. André Beaulieu: It is not an issue of uncertainty, it is rather an issue of what is unknown. The problem is that now, I do not know what contracts are on offer. The government is not telling me, and the manager is not telling me. As I was explaining earlier on, if you are doing some work at your house and you do not tell me, I cannot offer you my services. You are therefore denied yourself my services. If PWGSC was more supportive of its manager, SNC-Lavalin, they would probably get better service. In fact, if the manager calls three of his friends to get bids, he will get a price from those three businesses. Unfortunately, there may not be one good bid among them. However, if he does so publicly and he receives 60 bids of which 14 are good, if he takes the cheapest one, everyone will save money. The government would get the best price and the best consultant or service provider.

• (1605)

Mr. Jacques Gourde: I have a final, brief question. Does the situation make it more difficult for you to retain your engineers and experts? You might have to reduce or increase your staff from one month to the next or from one year to the next.

Mr. André Beaulieu: No, that does not affect our operations. As I explained a bit earlier, we get a lot of contracts from private companies and other organizations. What we do not obtain with PWGSC, we get with other businesses. As I explained to Mr. Nadeau, I am not here to look for work. I am not looking for any; I am very busy. We have many contracts. As I was saying earlier, our firm was founded almost 30 years ago. It is recognized in its field. We do not need to call people and offer them our services, they are calling us. I am here to inform you about how SNC-Lavalin awards contracts to professional firms in order for you to exert pressure and help change the way contracts are awarded, so that the government better control the process and generate more savings. That is all.

Mr. Jacques Gourde: In your view, and given the state of Canadian buildings, will business be good for you over the next 10 years? As you are an expert on outside walls, you no doubt have carried out projections as to how your business will fare over the next few years.

Mr. André Beaulieu: We might consider those things, but if the old buildings are not rehabilitated, we will not have any work.

Mr. Jacques Gourde: Thank you.

[English]

The Vice-Chair (Mr. Chris Warkentin): Mr. Martin is next, for eight minutes.

Mr. Pat Martin (Winnipeg Centre, NDP): Thank you, Chair.

Mr. Beaulieu, thank you for being here.

I want to say I'm very sympathetic to what you've told us about your situation. I'm also very concerned about what you've shared with us, because our main concern as the government operations committee—an oversight committee on government spending—is that we're getting the best value possible for our tax dollars.

This is a huge amount of money to deal with the maintenance of 319 buildings, but from what you've told us I understand there's very little true competition left in the tendering process in the administration of these contracts. We don't know if we're getting the best value unless we test the market with a true and open competition.

Do you know if SNC-Lavalin operates on a cost-plus basis? In other words, do they accept your price, add 10% or 15%, and then submit that to the federal government? Is that their *modus operandi*?

[Translation]

Mr. André Beaulieu: From what I know of SNC-Lavalin's contracts, the firm does add a certain percentage to the contracts and mandates that it offers. I cannot say whether it does that for all contracts, but that is certainly the case with professional services. If I am asked to bid in order to do work or offer professional services to SNC-Lavalin, and I submit a \$25,000 bid, SNC-Lavalin will top up that amount with its contract management expenses.

To my knowledge, SNC-Lavalin marks up all the contracts it offers and awards.

[English]

Mr. Pat Martin: As a management fee.

My first reaction to that is why don't we just cut out the middle man and go directly to you, to the one delivering the service? One newspaper article we have here says that their management fee is about 14%, which is quite generous. An architect's fee for a building is about 7%. Even in the sponsorship scandal, their standard markup fee for advertising contracts was only 16%. It seems like a very generous markup.

It almost seems like SNC-Lavalin has a monopoly on this work. It seems as if Public Works has simply off-loaded the obligation for the responsibility of all these buildings to SNC-Lavalin. To me, that's not an efficient or effective use of taxpayers' dollars. I'm very concerned.

I want to thank you for bringing this to our attention, because all of us were shocked when we saw some of these figures. Maybe they're gross examples: \$1,000 for the installation of a bell somewhere, and \$2,000 for the purchase of two green plants. Is it your opinion—and I won't ask you to go too far out on a limb—that perhaps we're paying more than we need to for the maintenance and administration of this building stock?

•(1610)

[Translation]

Mr. André Beaulieu: It is difficult for me to say that the government is paying too much, because there is a problem of transparency. We do not know the costs, and neither do you. I cannot compare the costs for Public Works Canada to costs that are unknown. As I was saying earlier, we are in the dark. The rules might be appropriate, but I have strong doubts about that. A process that is completely transparent allows for better competitiveness among companies and helps lower prices. If you ask a number of entrepreneurs to tender for work, and you tell me that one of them has bid \$1,000, I will be tempted to ask for \$900 if I am interested in obtaining the contract.

[English]

Mr. Pat Martin: Apples to apples—that's real competition. I think you need to have that open. Even in the construction industry they structure themselves, with the bidding process they have in their construction associations, so there is that honesty and you can test the marketplace effectively. I think we've gone down a very dangerous road here.

We had similar testimony regarding the IT services for the Government of Canada. Some of the small contractors came to this committee and said it almost seemed that the government had bundled the work into a package so large that only a select few companies could compete.

SNC-Lavalin is like the Wal-Mart of engineering, in a sense. I think it undermines and defeats small and medium-sized entrepreneurs from taking part in all the procurement of government services out there for building management.

I don't know if I have any further questions, other than to say I'm very sympathetic to the facts you've brought to us here and to your situation as a small, honest, local businessman who would like to be able to participate directly with the federal government.

I can tell you that when we write this report I will be in support of Mr. Nadeau's position that we should revisit the awarding of these government maintenance contracts to ensure that small and medium-sized businesses like yours have a fair opportunity to deal directly with the federal government.

If I have any time left I will share it with my colleague, Mr. Nadeau, if he has any other questions.

The Vice-Chair (Mr. Chris Warkentin): I think that will be fine.

Mr. Richard Nadeau: How much time is left, Monsieur?

The Vice-Chair (Mr. Chris Warkentin): There's just over a minute.

[*Translation*]

Mr. Richard Nadeau: Mr. Beaulieu, we learned last March that outrageous prices had been charged for odd jobs and services that should never have cost as much. A journalist from the *La Presse* daily had asked SNC-Lavalin, in fact, Public Works Canada, to review all the invoices in order to determine whether those prices were the exception or the norm. Public Works Canada has denied that request. And yet, this is taxpayers' money.

I now better understand the situation in which you find yourself as an entrepreneur. You have shown much courage in coming here today. We thank you for that. If the truth be told, you are publicly exposing a situation that is unacceptable, to say the least. We are talking here about public tenders versus invited tenders.

• (1615)

[*English*]

The Vice-Chair (Mr. Chris Warkentin): Mr. Nadeau—

[*Translation*]

Mr. Richard Nadeau: I'll just finish my question, Mr. Chair.

In order to obtain government contracts, do you have to guess what work is to be done? It's a good thing these are not the only contracts you can get. Do you have to gaze into a crystal ball, or go knocking on doors? What exactly do you do?

[*English*]

The Vice-Chair (Mr. Chris Warkentin): We have time for just a short answer, if you could.

[*Translation*]

Mr. André Beaulieu: That is exactly what we have to do. The work and services offered by Ricky are known only to the SNC-Lavalin project managers or directors. This is why we have to contact them regularly to ask them if any work or services are required in our field of expertise. This is how we have to proceed in order to offer our services, but especially to ask them to send us documents that will allow us to offer our services.

As for contracts that are granted directly by SNC-Lavalin project managers, you have to do a lot of door-knocking and show up there cap in hand. For contracts under \$25,000, the contract can be granted directly by the project manager without calls for tenders, whether the contract be public or by invitation. You just have to do a bit of schmoozing, be friendly with the SNC-Lavalin project managers, invite them to your receptions or to good restaurants in order to obtain more contracts.

[*English*]

The Vice-Chair (Mr. Chris Warkentin): We'll move along.

Ms. Coady, from the Liberals; you may start with a five-minute round. I believe you'll be sharing your time with Mr. Murphy?

Ms. Siobhan Coady (St. John's South—Mount Pearl, Lib.): Yes, thank you very much.

Thank you very much for appearing here today. I think you've done quite well in explaining yourself. You said you're new to this process, but we really do appreciate you coming here.

I have a couple of questions, and I'm hoping you're going to be able to assist me with this. I think you said you were a fairly new company. Were you around prior to 2005? I know that there was another party that had the contract prior to 2005, prior to SNC-Lavalin. Were you in business then?

[*Translation*]

Mr. André Beaulieu: Yes. The company that managed government buildings before 2005 was Brookfield LePage Johnson Controls. Between 1999 and 2005, this company gave us about 200 contracts. However, we only got 10 of those through calls for tenders. The other 190 were obtained by speaking directly with Brookfield LePage Johnson Controls projet managers.

[*English*]

Ms. Siobhan Coady: So there's been a change, you feel, between the contract prior to 2005 and today.

I think you mentioned earlier that you want to see buildings being managed at a reasonable cost. I think your comment earlier was on reasonable cost.

I think there are two components to the SNC-Lavalin contract, one for property management and the other for project management. I'm assuming that you have been tendering on some of the project management work. I think I'm hearing correctly—and I'd like your verification—that you have concerns around the tendering process and concerns around transparency. How would you ask that they be improved to ensure we get reasonable cost?

[*Translation*]

Mr. André Beaulieu: In fact, all that is required is for government contracts tendered through SNC-Lavalin to be known publicly. This way, professionals could offer their services. This is how the Government of Quebec proceeds. They ask companies to register in the field in which they are specialized. When contracts are offered, these companies are called to tender for these contracts and to state what price they would charge. When a company is chosen, the names of the other companies are kept in the database and the name of the winning company is removed. The next contract is then offered to the remaining companies and so on and so forth until the hat is empty. Then, you put all the names back in the hat and the process starts all over again. This ensures fairness. You ensure that all companies obtain contracts and the costs are always reasonable.

•(1620)

[English]

Ms. Siobhan Coady: I think the key words here are “at a reasonable cost”. Just going back to.... I think it was Mr. Nadeau who talked about \$5,000 to fix five light bulbs. That's exorbitant, and obviously we don't want to have those kinds of costs. Do you think the system that you're describing will actually bring that kind of reasonable cost back into the contracts? That's what you're considering?

[Translation]

Mr. André Beaulieu: The point is to ensure that a maximum number of companies perform the work through SNC-Lavalin. A greater number of companies fosters competitiveness. And of course, if you increase competitiveness, you decrease prices. If there were only two companies offering services in a particular field, they could easily fix prices. However, if there are 150, it is a lot harder for them to fix prices. So, the more competition there is, the lower the costs are, and the better off the federal government is.

[English]

Ms. Siobhan Coady: I'll share my time with Mr. Murphy. Thank you.

The Vice-Chair (Mr. Chris Warkentin): You have half a minute left.

Hon. Shawn Murphy (Charlottetown, Lib.): I have just one point I'd like you to elaborate on, Mr. Beaulieu, and that is with regard to the certification process. Anytime in the construction industry, especially with the private sector, one would expect to see someone from Public Works, or an independent agent employed by Public Works, certify that the work has been done, it has been done in accordance with the plans and specifications, it meets building code requirements, and the price is commensurate with the work that was done.

Was that independent third-party certification done on any of the work that your company did as a result of this Lavalin contract?

The Vice-Chair (Mr. Chris Warkentin): The time has expired, so if you just want to give a short answer, that would be fine.

[Translation]

Mr. André Beaulieu: You raise an excellent point. There are no reports or assessments of the quality of work performed by professionals since the private sector took over the management of government buildings, whether it be Brookfield Lepage in 1999, or SNC-Lavalin right now. There are no assessment reports on the quality of work or services provided to the government through these companies.

So, if we get no contracts, it's not because we do not have good relationships. We have no assessments. Our companies are not assessed. So, we do not know what the assessment of our work is and we do not know what the criteria are for granting contracts to professionals because there are no assessment reports.

[English]

The Vice-Chair (Mr. Chris Warkentin): Thank you.

Madame Bourgeois, for five minutes.

[Translation]

Ms. Diane Bourgeois (Terrebonne—Blainville, BQ): Thank you, Mr. Chair.

Mr. Beaulieu, first of all, thank you for coming here. Thank you also for being so frank with us in explaining the difficulties you are facing.

Last year, our committee studied the way the government dealt with small and medium-sized businesses, particularly with respect to information technology. In the future, the government may want—it should be noted that at present everything has been put on ice—to award large IT contracts.

Our committee looked into the way small and medium-sized businesses participate in government contracts. We feel—the committee was unanimous on this—that small and medium-sized businesses, both in Canada and in Quebec, are what drive the economy. The government has the moral obligation to encourage these companies and to enable them to live, to exist and work in accordance with a clear process.

Back then, we studied the MERX process. We were told, here in the committee, that there were no problems, that MERX operated very well and that small and medium-sized businesses had access to government contracts.

However, we were not told about the matter you raised; namely, that when a large corporation, such as SNC-Lavalin, has sole responsibility for managing a contract, it is impossible, unless I am mistaken, for anyone to see how and to whom it offers these contracts, because it has the authority to keep all of this a secret. Is that correct?

•(1625)

Mr. André Beaulieu: Absolutely. We do not know the process used by SNC-Lavalin to manage and award contracts, be it to private firms, professionals or whomever. We do not know the process and the mechanisms that govern it. So we do not know whether SNC-Lavalin has to go through MERX. We do know that it goes through MERX on occasion. However, we know absolutely nothing about the rules governing SNC-Lavalin, namely, whether it is obliged to go through MERX, the basic amount and the reasons.

What we do know is that, when it comes to professional services, MERX is seldom used.

Ms. Diane Bourgeois: You have just told us about SNC-Lavalin and I am eager to meet with their representatives. In your opinion, are there other companies that operate in this way?

Mr. André Beaulieu: I believe that there are other companies that manage certain parts of the federal governments' real estate inventory. The part that they manage is, however, very small. These companies have a much smaller demand for our services. Nevertheless, I would be very surprised if the mechanisms and operating modes are much different from those governing SNC-Lavalin.

Ms. Diane Bourgeois: All right.

To your knowledge, how many companies are currently, like you, grappling with this opaque management?

Mr. André Beaulieu: Nearly all of the companies and SMEs in the region.

Ms. Diane Bourgeois: And approximately what number are we talking about?

Mr. André Beaulieu: Dozens and dozens. Unfortunately, I do not know them all.

All small engineering and architectural firms as well as those specialized in construction are experiencing the same problem. Nor do they know those who have had some success. My company had more dealings with the contract for BLJC. At that time, I had an employee tasked with making regular visits to all of the project leaders and examining the schedule for the contracts. I paid someone on a full-time basis to go and examine the list of the jobs that were in our area of expertise and to convince the project leader to give us a contract.

Ms. Diane Bourgeois: I have two questions, Mr. Chair. In order to ask these questions, I need help from the research analysts or perhaps the clerk or the lawyers.

[English]

The Vice-Chair (Mr. Chris Warkentin): Your time has nearly expired.

[Translation]

Ms. Diane Bourgeois: May I ask my two questions quickly?

What can the committee do? Does the committee have the legal right to see the contract that was awarded to SNC-Lavalin to determine whether it contains obligations to encourage small and medium-sized enterprises in the region? And given that the contract expires in 2013, what can the committee do? Can we help small- and medium-sized businesses?

Mr. Chair, I would appreciate you noting my two questions so we can see what can be done, because I believe they are important. I'm not sure who is taking note of them. Is it you or the clerk?

[English]

The Vice-Chair (Mr. Chris Warkentin): Absolutely, and we will do that.

I'm going to turn to Mr. Lake now for just a few minutes. We're running short of time, but we will get back to it as we contemplate how we go forward in this study, absolutely.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair, and thank you, Mr. Beaulieu.

It's always interesting to sit in on a committee of which one is not a regular member—and I'm not a regular member of this committee. It seems to be an unusual committee process to have you here before we have the Public Works folks here to give some context to the situation.

I notice when I look at the notes the analysts have provided for us that following a process that PWGSC considers fair, transparent, and competitive, the department awarded eight AFD—alternative forms of delivery—contracts to SNC of Toronto, Ontario. These contracts took effect April 1, 2005, which I guess would have been under the previous government, and for an initial duration of four years.

Your company would have received contracts in a competitive procurement process right around that same time, before and after that date, and won some government contracts. Would you agree those contracts at the time were awarded in an open and transparent manner?

[Translation]

Mr. André Beaulieu: We do not know which process Public Works and Government Services Canada used to award the contract to SNC-Lavalin. What we do know, is that as of 1999, when Public Works launched a call for tenders, the company that obtained a contract from Public Works was, as I said earlier, Brookfield LePage Johnson Controls. These three companies merged to offer their services and obtain the Public Works and Government Services Canada contract to oversee building maintenance. Then, Public Works issued another call for tenders in 2005, and at that time, it was SNC-Lavalin ProFac that obtained the management contract for building maintenance as of 2005.

This is a federal government tendering process, in this case Public Works and Government Services Canada, that I am not familiar with. I do not know what principles it was based on nor what process Public Works used to offer the contract to SNC-Lavalin. We do not know all the rules. We do not know SNC-Lavalin's mandate in full. What we do know is that, as of 2010, SNC-Lavalin ProFac's contract expired. Now, a company called SNC-Lavalin Operations and Maintenance is responsible for overseeing the upkeep of federal government buildings until 2013. Unfortunately, however, we have no information on the process used by SNC-Lavalin to obtain the contract from Public Works.

• (1630)

[English]

Mr. Mike Lake: That's interesting. My question actually was about the contracts that your company received during that time, but this is a good question. Maybe the committee will want to invite the minister of the time, from April 2005, to come to talk about the process back then.

Were the contracts awarded to your company awarded in an open and transparent manner?

[Translation]

Mr. André Beaulieu: All the contracts we have carried out to date for SNC-Lavalin were obtained further to a call for tenders. There are very few of them, compared to the number of contracts awarded in the past when management was done by Brookfield LePage Johnson Controls. Since SNC-Lavalin has taken over, we have received very few contracts through a bidding process. It is not that we are the highest bidder, it is simply that we do not receive an invitation to bid. As I explained earlier, the problem is that the calls for tender are not public. People are invited to submit a bid.

[English]

Mr. Mike Lake: I would like just a quick clarification, because I know that my time is up. When you say “fewer contracts”, are you talking about their being fewer in number or in dollar value? Could you put some context behind that statement?

[Translation]

Mr. André Beaulieu: It is both. The number of contracts has declined considerably. There are perhaps five times fewer, and the same thing is true with regard to the value, which has declined by at least 60%.

[English]

Mr. Mike Lake: I don't know whether there is some documentation that can be provided, but perhaps it would be interesting for the committee to see some documentation around those contracts.

The Vice-Chair (Mr. Chris Warkentin): You have a few seconds, if you'd like to ask a specific question.

Mr. Mike Lake: Perhaps you could provide the committee with some documentation around the numbers of the contracts you received from SNC-Lavalin.

[Translation]

Mr. André Beaulieu: Absolutely, that is not a problem. I do not have them with me, but I can provide you with documents and the list of files that we worked on with SNC-Lavalin. You will be able to compare that with the number of contracts we received from the previous manager, Brookfield LePage Johnson Controls.

[English]

The Vice-Chair (Mr. Chris Warkentin): Monsieur Beaulieu, we appreciate your testimony today, and we appreciate that you have come. We are going to continue this investigation. The committee has called SNC-Lavalin to come, as well as Public Works and Government Services Canada, and I suspect we will be able to ask some of these questions to them.

We will continue, but we're going to suspend now for just one minute as we move on to the next witnesses.

Thank you.

• (1630) _____ (Pause) _____

• (1635)

The Vice-Chair (Mr. Chris Warkentin): Committee members, we are going to move along with our second hour of hearings.

We have only 45 minutes for your time here, witnesses. We appreciate your attendance today.

We have Cynthia Binnington, Vice-Admiral Denis Rouleau, William Pentney, and Kevin Lindsey. We appreciate your attendance. We thank you for your testimony.

We are moving forward on our study of the freeze on departmental budgets and envelopes with regard to government operations. Today we have witnesses from the Department of National Defence.

I know that you have a submission to start out with, then we will undertake some questions and answers for 45 minutes, and then we have some other business that needs to be taken care of.

We're going to move along to see whether we can cover as much as possible.

Mr. William F. Pentney (Associate Deputy Minister, Department of National Defence): Thank you, Mr. Chair. Thank you for the opportunity to appear before the committee.

My name is Bill Pentney. I am the associate deputy minister of the Department of National Defence. The deputy minister unfortunately is out of town. He sends his regrets.

I'm here with my colleagues: Vice-Admiral Denis Rouleau, who is the vice-chief of defence staff; Kevin Lindsey, who is the assistant deputy minister, finance and corporate services and our chief financial officer; and Cynthia Binnington, who is the assistant deputy minister for civilian human resources in the department.

Mr. Chair, we welcome this committee's interest in how Budget 2010 measures will affect our operations. I want to assure committee members that DND and the Canadian Forces are well situated to manage these budget measures and to continue to deliver the results that Canadians expect.

[Translation]

Just as Canadians take pride in the recent accomplishments of our sailors, soldiers and air personnel supporting the RCMP during the Vancouver Olympics—we succeeded in fulfilling our specific mandate, that is, to ensure the safety of the athletes during a sports event—assisting the people of Haiti following January's catastrophic earthquake, and bringing hope for a better future to the people of Afghanistan. They can look to the future with assurance.

This June, the Canadian Forces will again work to support the RCMP when leaders of the world converge on Ontario for the G8 and G20 Summits. At home and abroad, the men and women of the Canadian Forces will continue to operate in a proud, effective and efficient manner.

Before getting into Budget 2010, I would like to remind the committee of what has happened with Defence spending over the last several years.

[English]

Recent governments have made significant investments in defence, and in order to understand the impact of the budget measures outlined in Budget 2010 it's important to put this into the context of recent history. Budget 2005 and 2006 afforded significant new baseline resources for the Department of National Defence. These two budgets provided increases that amounted to an overall annual increase of about \$4.5 billion to National Defence's annual funding base. These increases were phased in over a number of years and have been fully implemented effective this current fiscal year.

In 2008 the government released the Canada First defence strategy as a detailed road map for the modernization of the Canadian Forces that would underline a long-term road map that really extends over the next 20 years. So our planning horizon is very much a long-term planning horizon.

The strategy pledged stable and predictable defence funding over the next 20 years and provided for an increase in the annual defence escalator, from 1.5% to 2% commencing in fiscal year 2011-12. It laid out plans for necessary investments and the four capability pillars that are core to a military capability: personnel, infrastructure, equipment, and readiness. Progress has been made in each of these pillars. Over the past year the government announced significant investments in defence infrastructure, both building new infrastructure and recapitalizing some of our aging infrastructure portfolio. There have also been major announcements in equipment, both meeting urgent needs in Afghanistan, such as delivering Chinook helicopters and unmanned area vehicles to the troops, and recapitalizing the baseline, the basic fleet, with, for example, an announcement of \$5 billion towards a whole family of land combat vehicles that will equip the army beyond Afghanistan and for the future.

We are looking forward to the delivery in June of the new C-130J Hercules aircraft, the workhorse of the air force—six months ahead of schedule, I would note.

Last summer the government announced a contract for the purchase of 15 medium- to heavy-lift helicopters, and we expect our first delivery in three years. In addition to that, there's been a series of announcements to refurbish existing fleets, such as the destroyers and frigates in the navy and CF-18s.

On the personnel side, recruitment efforts are continuing to deliver impressive results for both regular and reserve forces and attrition is diminishing. During the fiscal year that just ended, the regular force grew by 2,200 personnel, which is the best net increase we have achieved in recent years. So we've made encouraging progress in attracting individuals generally to join the armed forces and specifically to what we refer to as stress trades, trades where we need particular individuals. Unlike many government departments, we run the full gamut of high-end policy analysts to high-end welders and electricians. So we employ trades in support particularly of our navy and other fleets throughout the country. Civilian public servants continue to play a critical role as crucial members of the integrated team.

Budget 2010 reaffirmed the government's pledge to increase the defence budget annually. But with the size of the defence budget equal to roughly one-fifth of federal government program spending, we expected the department would be affected by the government's need to address the economic and fiscal situation. As you know, the budget contained two key measures that affect the department. First, like other departments, DND and the Canadian Forces will have to absorb a freeze on operating budgets. Effectively, that will mean that we have to absorb increases for civilian and military personnel of 1.5% this year, and that freeze in operating budgets will carry on until 2012 and 2013.

In addition, as you know, the budget also included provisions to slow the rate of previously planned growth for DND by \$525 million in 2012-13 and \$1 billion annually thereafter.

We expect the implications of these measures to be manageable. The key, and I underline "the key", and exception here is that defence spending will continue to grow. While defence will be subject to the overall operating budget constraint announced in

Budget 2010, the defence escalator will continue to apply. As a result, the budget will continue to increase, just at a slower rate of growth.

The timing of these measures allows us sufficient time to adjust our long-term expenditure plans. As an organization, we will strive to protect the essential tenets of the Canada First defence strategy and minimize the impact of a slowdown in funding growth through our work on strategic review, which will be completed in this fiscal year. The strategic review, which all government departments have been asked to undergo over the last four years—we're in the last year of the cycle—will help us determine if there are implications requiring adjustments to the Canada First defence strategy planning assumptions across all four capability pillars: equipment, infrastructure, readiness, and personnel. We're also carrying out a close examination of other possible internal efficiencies.

● (1640)

We are a huge and decentralized organization with a high operational tempo. We've had significant growth in recent years in both people and dollars. It's time to conduct a thorough review of what we're doing and how we're doing it. In conducting that review, we'll continue to focus on where it's been, on increasing effectiveness and efficiency, on delivering on our core roles, and on meeting the priorities and expectations of Canadians.

Mr. Chair, we're confident that we can manage the impact of Budget 2010 in a manner that allows us to stay the course in terms of the Canada First defence strategy. The key here, and I've underlined it, is the time associated with delivering on a long-term defence plan and having the time to implement the adjustments that are announced in Budget 2010.

The department and the Canadian Forces are in solid shape to weather the current financial realities and to continue to deliver what Canadians expect of us. We're also working hard to find further efficiencies and to address the short-term challenges—because there are short-term challenges—while keeping our eye on our long-term plan.

With those opening remarks, Mr. Chair, I welcome the questions of the committee.

● (1645)

The Vice-Chair (Mr. Chris Warkentin): Thank you, Mr. Pentney. We appreciate your submission this afternoon.

We'll begin the round of questioning with the eight-minute round. We'll start with Ms. Hall Findlay from the Liberals.

Ms. Martha Hall Findlay: Thank you, Mr. Chair.

I'll just note that we are a bit short of time, so I will try to split my time with my colleague, Ms. Coady. If we have additional time for a second round, that would be great.

Thank you all very much for being here.

You get to choose who is best to answer. My question is not specifically on how you're going to manage the freeze. You've addressed it here, and I want to give you absolute support for conducting a thorough review of what we're doing and how we're doing it, because I think everybody should be doing that on a regular basis.

You said that you will focus on increasing efficiency and effectiveness, on your core roles—and here's the key—and on meeting the priorities of Canadians. I looked at the budgets from 2004-05 through to 2008-09. The budget went from about \$14 billion to \$14.5 billion, \$16 billion, \$17 billion, \$18.5 billion, and \$19 billion plus. I thought we were ending our engagement in Afghanistan in 2011. Historically, when Canada has been at war, we've spent a lot of money being at war. Then, when we've stopped being at war, we have reduced spending rather dramatically.

I'm very curious. I understand that there's this long-term plan, but no longer engaging in what has proved to be a very expensive war strikes me as being something that would end up reducing our costs. Can one of you please explain to me where we should be saving money because we're no longer going to be engaging in Afghanistan the way we are? And thus, what is the real delta in terms of increased allocations for this long-term plan?

Mr. William F. Pentney: Mr. Chair, I can start, and others can either correct me or fill in.

Underlying the government's commitment to the Canada First defence strategy is really a twofold pledge. One is to have an annual defence escalator and to continue to grow the budget. The second is to provide incremental funding for the cost of deployed operations.

We have about 68,000 soldiers whose salaries we're paying now. Just late last week we sent planes full of soldiers to Afghanistan on that deployment. The incremental extra costs incurred, over and above their baseline salaries—the cost of paying their allowances, feeding them, and all of that—are incremental to the ordinary baseline. They are provided from the government through a separate funding line, as approved by cabinet.

The deployment to Haiti, which got such public attention, added incremental costs to the Canadian Forces. So over and above the baseline costs and the funding line you see set out in the budget for reinvestment in capital equipment, infrastructure, and people, it costs us more when we send those people on major missions overseas, as it does in Afghanistan and as it did in Haiti. There's a separate allocation provided to the Canadian Forces and the department to offset those costs.

Ms. Martha Hall Findlay: Just to clarify, this budget is not just for people, with all respect. I mean, we've spent an incredible amount of money on capital and on other aspects of being in Afghanistan. Are you saying that the incremental costs of being at war are actually over and above this budget?

Mr. William F. Pentney: They're reflected in separate appropriations from Parliament. They're over and above the baseline budget.

Ms. Martha Hall Findlay: So this is a budget we would have whether or not we were in fact at war in Afghanistan.

Mr. William Pentney: Yes, that's correct.

Ms. Martha Hall Findlay: I'm looking at these numbers from 2004 right through to 2009—they are completely separate from what we've been doing in Afghanistan.

Mr. William F. Pentney: I'm not exactly sure which numbers you're looking at, but a baseline budget for the department is reflected in the main estimates and in the supplementary estimates. There is an incremental funding amount this year for Afghanistan of about \$1 billion, give or take, in addition to the baseline budget.

Our baseline budget is about \$21 billion. Over and above that, \$1 billion is appropriated to the department and the Canadian Forces for supply and capital equipment, although we will bring home much of the capital equipment for refurbishment and use in other missions, so it's not as though it's entirely used up.

Ms. Martha Hall Findlay: I would then suggest it should be a saving, because we shouldn't be acquiring any new equipment.

Could I ask that we get similar financial information on the piece I'm apparently missing on the separate allocations and the separate piece for the incremental costs of being in Afghanistan? Would it be possible for the committee to obtain that information within a decent timeframe?

• (1650)

Mr. Kevin Lindsey (Assistant Deputy Minister, Finance and Corporate Services, Department of National Defence): We can certainly provide it.

In fact, Mr. Chair, the information is available in the department's report on plans and priorities, which accompanies our main estimates, outlining the incremental costs of the mission in Afghanistan and the costs that are funded over and above the department's baseline. We would be happy to provide that separately.

The Vice-Chair (Mr. Chris Warkentin): Ms. Coady.

Ms. Siobhan Coady: Thank you very much.

I certainly appreciate you taking the time to be here this afternoon.

I have a question that speaks to the strategic review. It's supposed to be completed at the end of 2010-2011, is that correct?

Will the 5% savings you're looking for be reinvested in DND or go back to general revenues? It is a significant amount on your budget.

Mr. William F. Pentney: It is a significant amount. The way in which we will achieve the reductions in growth that are announced in Budget 2010, with \$525 million moving to \$1 billion ongoing, will be accomplished through the strategic review. The adjustment in the budget line continues to grow.

Ms. Siobhan Coady: That's your strategic review. It's not in addition to that.

Mr. William F. Pentney: No. It's nice to do a review when you know what your target is, and we know exactly what our target is.

Ms. Siobhan Coady: Okay.

How much time do I have left?

The Vice-Chair (Mr. Chris Warkentin): You have about a minute and a half.

Ms. Siobhan Coady: I know you've been making great investments in your personnel. According to your plans, you're going to continue in that way. Will you continue your encouragement and support for reservists?

A lot of them move into the regular forces, but I want to ask specifically about reservists. Do you anticipate any changes or challenges? I've heard a certain amount about that in the communities, where support is somewhat diminishing.

Are there any other risks to the slowdown in the budget growth of DND? What are the other risks? I'm asking about reservists because I've heard there is some diminishment of support toward reservists in the communities. Perhaps you can clarify that. What other risks are there for the slowdown in the budget?

Thank you.

Vice-Admiral Denis Rouleau (Vice-Chief of the Defence Staff, Department of National Defence): The first element from a reservist perspective is that reservists are very important to us right now. In fact, for some of our rotations in Afghanistan they account for about 20% of the group that goes over there. It's an element dear to our hearts. The reservists will continue to go until the last rotation. We're still going to make use of them. However, with the Afghanistan mission coming to an end, we're going to start to draw less on the reservists.

At the same time, while the Afghanistan side is important to us from a reservist perspective, we also have what we call a trained effective strength shortage in the regular force. Trained effective strength describes positions for which you need somebody trained to do a specific task. We have a shortage there, but we've been hiring reservists.

Given the very successful recruitment in the past year and the year before that, we're now starting to fill positions that are regular force positions for which we had hired reservists. This will also draw it down, but it will not happen overnight. We will not be able to fill those positions overnight.

Ms. Siobhan Coady: Support for the reservists will basically continue.

VAdm Denis Rouleau: Absolutely. Reservists are part of that.

Ms. Siobhan Coady: Okay. I hear that support is diminishing in some communities.

Are there any other risks?

The Vice-Chair (Mr. Chris Warkentin): Your time has expired. I gave you a little extra time.

Mr. Bachand.

[Translation]

Mr. Claude Bachand (Saint-Jean, BQ): Thank you, Mr. Chair.

I am pleased to be with you today. I am also pleased to have before me my friends from the Department of National Defence, including Admiral Rouleau. You will soon be in Saint-Jean to participate in the gala, I believe?

VAdm Denis Rouleau: The Chief of Defence Staff will be there.

Mr. Claude Bachand: The grand chief himself will be there. That's wonderful.

I am trying to understand what you presented in your brief today. It reads: "First, [the Budget] announced a freeze on operating budgets that will require the Department to absorb salary increases for civilian and military personnel of 1.5% until the end of the freeze in 2012-2013."

How are you going to do that? I assume that for civilian personnel, collective agreements are in place. As concerns military personnel, I am somewhat concerned that the reserve forces will be the victims of this measure, because they do not have a fixed budget envelope like the regular forces do. In fact, I wrote a letter to the minister on this subject, saying that it is not normal that these reductions should be made on the backs of the reserve forces. You can confirm to me that there have been salary reductions recently within the reserve forces.

How do you intend to absorb the salary increases of 1.5%, and is there a risk that the reserve forces will suffer from this measure?

• (1655)

Mr. William F. Pentney: I will answer first, Mr. Chair, and the vice-chief will continue with the answers concerning the questions on the reserve forces.

First, for us, this is one of many challenges. We conduct budget planning and adjustments each year, at the beginning of the year and over its course. This 1.5% is not a disaster for us but, neither is it negligible. We must make adjustments. We submitted the budget allocations to each assistant deputy minister or their military counterparts. They are currently preparing the final expenditure plan for this year. We have to make adjustments and find efficiencies in-house. It is not the end of the world for us. We have to make adjustments to our internal planning like we do each year.

With regard to the reserve forces, we do not foresee an overall decrease. As the vice-chief has just said, it is very important for us.

Mr. Claude Bachand: You did not reduce your reserve strength this year but you did cut its salary budget. They were forced to accept a one-month salary cut on a group basis. So that is already done. What I want to know is if that will be repeated.

Vadm Denis Rouleau: In certain cases, this year, as part of our quarterly reviews, adjustments were made to the budget and we were asked to make adjustments to level 1, as it was possible to do without any impact on the operational levels. Our criterion is a priority, and it has no impact on operations. As for determining how level 1 people will manage their budget, that is something we review at least four times a year as part of our quarterly reviews. The adjustments are made not only on the reserve side but also to many other applications in force at that time.

Mr. William F. Pentney: I'd like to add that the reservists who will be leaving for Afghanistan soon are just as well trained as the other military personnel. There are reservists in Canada who have been given extra training in preparation for these missions, just as the members of the regular forces have. So this is an adjustment within the group, it is not an overall cut.

Mr. Claude Bachand: Fine. Let's move on to your 2012-2013 budget. You said that there will be a \$525 million increase followed by a \$1 billion increase. If I understood you correctly, Mr. Pentney, you said that the budget will continue to increase but not as quickly as planned. Is that—

Mr. William F. Pentney: Yes, exactly. It is a decrease in the increase.

Mr. Claude Bachand: And after 2012-2013, there will be an annual budget increase of \$1 billion. Is that correct? There will be an increase of \$1 billion per year after 2010-2013?

Mr. William F. Pentney: We will maintain a budget increase of 2%. It's complicated. Perhaps Mr. Lindsey can explain. In our budget document, you can see a chart that indicates that there will be a decrease in the annual increase of 2%. However, we will subsequently continue to increase our budget by 2% each year.

Mr. Claude Bachand: To your knowledge, Mr. Pentney, is the defence department the only department that has permission to increase its expenditures over the coming years?

• (1700)

Mr. William F. Pentney: The Department of Indian and Northern Affairs may also see increases because of the government's policies or strategies.

The difference is that in our case, we're not dealing with a legislative program, such as employment insurance, for example. We're talking about an operational budget. We are practically the only ones in that situation.

I believe that the Department of Indian and Northern Affairs may also receive an increase to support first nations.

Mr. Claude Bachand: You said that this increase in funding will take place in the context of your strategic review. Has that review been completed?

Mr. William F. Pentney: Unfortunately, no, but we are working on it.

Mr. Claude Bachand: Once that review is completed, the way in which this is going to happen will be clearer, won't it?

Mr. William F. Pentney: We have to submit a plan to cabinet if adjustments are going to be made to the Canada First Defence Strategy.

Mr. Claude Bachand: My next question is a very important one for me. In terms of equipment procurement, research and rescue planes, supply boats and ocean patrol vessels in the Arctic have been mentioned. Will these budget cuts have any impact on future military equipment procurement?

Mr. William F. Pentney: It's difficult to know. We want to preserve the heart of the Canada First Defence Strategy. Furthermore, equipment recapitalization is essential. I believe our rescue vessels and planes are quite old.

Therefore, we need to continue but will the details remain the same? I think we need to finish the study.

Mr. Claude Bachand: Are you talking about the strategic study?

Mr. William F. Pentney: Yes.

Mr. Claude Bachand: Thank you, Mr. Chair.

[English]

The Vice-Chair (Mr. Chris Warkentin): Thank you, Mr. Bachand.

Mr. Bruinooge, you have an eight-minute round.

Mr. Rod Bruinooge (Winnipeg South, CPC): Thank you, Mr. Chair.

I appreciate the witnesses coming before us today. Your testimony has been well received thus far, and I know that the work your department does—and of course the Canadian military does—is very substantial for Canada.

I just wanted to go over a few items that were raised in your presentation. I want to talk a bit about how you referred in part to the pledge stability and predictable defence funding that is planned for over the next 20 years as part of some of the announcements that our government has made in recent years. I guess maybe you could give us some testimony as to how that is beneficial to the military in terms of being able to operate in this modern world that we have, with all the challenges that you face. Perhaps you could also give some evidence as to how your opinion has been formed on that matter. For instance, the opposite of that would be a lack of stable projections, instability, unpredictable cuts, etc.

Perhaps you could give us some measure as to why that is so important to not only this department but to the Canadian military and its ability to operate in the global environment.

Mr. William F. Pentney: Mr. Chairman, I'll just lead off and then the vice-chief will pick up on it.

This is a long-term business, and the capabilities of which Canadians are so proud, which we see on display in Afghanistan and in Haiti—and less on display during the Olympics, but they were there in the background during the Olympics—are not capabilities that were bought at Canadian Tire or Wal-Mart last week.

You don't grow a long-term military capability in equipment, personnel, command and control, and all that needs to come together at the moment to deliver the results and express the values of which Canadians are so proud, in a short-term way.

So the long-term planning horizon for us, like other departments of defence or militaries, is really absolutely vital. That's because we're making investments now that are going to shape the future of the Canadian Forces, and what Canadians can expect the forces to do for the next 10, 15, or 20 years. Today we're the beneficiaries of the decisions that were made 10 or 20 years ago—or in some cases 30 or 40 years ago, unfortunately—in terms of some of the equipment and the capabilities we're using today.

The vice-chief can elaborate.

VAdm Denis Rouleau: Not that much more can be said. What we have in terms of capability planning is called the strategic capability road map. You may have heard of it. It looks at what we have right now, from a capability perspective, and when we're going to need to start replacing equipment in order to maintain that capability for the government.

We can basically superimpose that road map over the 20-year funding we have planned right now. We have this 20-year look as to what we have, what we want to have, and when we're going to be able to do things. In some cases we've already started investing in this.

It's probably the first time I've seen it being done that way. It has a dynamic element—some of those elements will change—but we have a plan to go to. We have a long-term goal, given the life expectancy of the equipment, including the funding that will be required to make that work.

For us, it's a phenomenal tool. In fact we are one of four departments that submitted our investment plan to Treasury Board. Only four departments are part of the pilot project to do just that, to give visibility as to how we intend to spend our money. It is useful for Treasury Board, and it is ten times as useful for us to make our plan and to look 20 years down the line.

• (1705)

Mr. Rod Bruinooge: Could I get you to elucidate on that philosophy in a more finite way?

I want to bring up an example of the very unfortunate tsunami of Boxing Day 2004. Clearly many people in the world were very affected by that. Could you describe how the Canadian military was able to support the recovery efforts with that unfortunate disaster, compared with the change in equipment, etc., that you were able to deliver on for the most recent disaster in Haiti? Could you compare those two situations?

VAdm Denis Rouleau: In these two cases it was the ability to deploy by ourselves, to be able to bring to bear the equipment and the soldiers we needed to put on the ground.

In the example you were mentioning with the tsunami, that was the pre-C-17 era. We did not have the Globemasters to be able to move our equipment as fast as we did for Haiti.

Mr. Rod Bruinooge: How did you get your forces to Thailand and Indonesia? What means did you use to get them there?

VAdm Denis Rouleau: If we had to send people there, we would either borrow from the U.S. forces, or go into a contract with commercial air that would bring our equipment to wherever we needed it.

Mr. Rod Bruinooge: Do you recall how long that took after the tsunami?

VAdm Denis Rouleau: I could not give you the specifics, but I can tell you that for Haiti we had an airplane on the ground in Port-au-Prince the morning after the incident.

Mr. Rod Bruinooge: Mr. Chair, I have another line of questioning, if I have some time.

Could you give us, as a committee, some understanding as to how Canada's fiscal level of support for its military, both now and in the previous two decades, compares with other countries in NATO? Could you give us some benchmarks as to how we compare? Are we funding our military at levels equal to.... The Dutch example of a smaller population with a small land mass comes to mind. On a ratio of GDP.... I don't know if you have that specifically, but could you give us some appreciation of where we are and perhaps where we should be?

Mr. William F. Pentney: I think where we are is 1.2% of GDP. And in terms of comparators, I believe the Americans, on their baseline, are over 4%. I'm not sure that anyone in the world compares to them, at least in terms of reported figures, although I think there are some doubts that what some countries are reporting actually represents the full extent of their military expenditures.

It's difficult to measure comparison by comparison in terms of baselines, partly because of the incremental funding—to reference a question I answered earlier—in terms of the total fiscal commitment that Canadians are making in support of their military, whether at home or abroad.

I can say that many countries are looking at making difficult trade-offs right now in terms of the level of investment in their military that they can afford. You've seen it in white papers in France, and you're seeing a debate in the U.K. right now. There continue to be debates, even with the truly amazing amount of money the Americans are pouring into defence, about whether they're getting the results they need and whether they've got enough.

So a number of countries are facing difficult choices about what their level of appetite and ambition is, on the one side, versus their emerging fiscal realities on the other, and there are many NATO countries that are like that.

It's also fair to say that within NATO there are a number of relatively new entrants to NATO that don't have the fiscal capability of Canada or other countries but are also stepping up to the plate, whether through allocations of troops on the ground in Afghanistan or investments in equipment, where they can afford it.

Canada, it's fair to say, right now is engaged in a pretty substantial recapitalization of the Canadian Forces. As I indicated in my opening remarks, the baseline funding for defence has gone from \$12 billion to \$13 billion up to a baseline now of, give or take, \$21 billion. So there's been a quite substantial reset in the baseline and in the escalator built in over time. So it's a significant investment in defence.

If you'd like, we can come back to you with the specifics in terms of the comparators. We don't have them here with us today.

• (1710)

The Vice-Chair (Mr. Chris Warkentin): Thank you very much.

We're going to move over to Mr. Harris for our final round of questioning.

Mr. Jack Harris (St. John's East, NDP): Thank you, Chair.

Thank you for joining us today.

I suppose if we're starting to compare ourselves to the Americans, it's no comparison, since they spend, I understand, more than everybody else in the world combined for their own superpower or strategic reasons. I don't think we hope to, or would want to, try to compete with that on a per capita basis or otherwise.

I want to get down to some specifics here. You were asked some questions about the reserves, and I know the reserves are very important, not only for support in Afghanistan in terms of 20% of our capabilities there, but they're also important to our capacity. I'm just looking here at a sheet on the navy and naval reserves indicating that for active personnel it's 10,900, and reserve personnel are 4,100, so obviously the reserves are a very important part of the overall commitment. But I keep hearing, and it's anecdotal, from one part of the country to the other—and various members of Parliament have mentioned it to me—that the reserve budgets are being cut or the training allowance is being cut, people are being laid off, or even just the training budget is being cut.

I understand you're trying to avoid affecting operations, but can you tell us what these adjustments actually have consisted of in the last year? "Adjustment" is a nice fancy word probably for reductions in expenditures. Can you tell us what the reductions were from the beginning of the year, what the allocation was for the year, and what was adjusted downwards over the year? Can you give us those numbers?

Mr. William F. Pentney: Mr. Chair, we'll come back to you with the specific numbers. There were certainly adjustments that were made during the year. We'll make adjustments this year again towards priorities.

Mr. Jack Harris: I'd like to know what they were. If you could provide that it would be great.

Mr. William F. Pentney: Yes, absolutely.

Mr. Jack Harris: I have another question.

We've been contacted by someone from Petawawa telling us a story, an anecdotal story but with specifics, and I wonder if it represents problems elsewhere within your finances. This is on the civilian side. Buses are used to transport troops to various events, and my understanding is that there's an overtime freeze for civilian

personnel, and in this particular case the Canadian Forces will contract out a bus for \$400 or \$500 if there happens to be a bus requirement for an hour before a shift starts, rather than paying an hour of overtime to a regular permanent employee, which might cost \$30 or \$40.

That seems to me to be obviously inefficient, potentially wasteful, but the rationale seems to be that they're not permitted to transfer money from an operation and maintenance budget, where the contracting is, to a salary and wages budget, where the overtime freeze is.

Have you come across that as a problem? Has it been brought to your attention? Is it a regular problem? Is that kind of inflexibility inherent in your budgeting process, or would that be an anomaly?

Mr. Kevin Lindsey: Mr. Chair, there is no institutional barrier to transferring money from the operating budget to the salary budget. DND is a very large and decentralized organization. Commanders at the base level have the discretion to manage their budget that way, but they are not obliged to. They have the flexibility within the overall financial management framework to move money back and forth.

• (1715)

Mr. Jack Harris: But wouldn't you agree that if it's a discretionary matter, that's an inappropriate use of discretion or failure to use discretion to save the public money in something as simple as that? We're talking perhaps ten times the cost to deliver the same services with existing staff. Would you not agree that discretion should be exercised appropriately in those circumstances?

Mr. Kevin Lindsey: I would say that we would always want someone to choose the lowest-cost course of action.

Mr. Jack Harris: Another issue having to do with personnel.... I see Ms. Binnington is here, and maybe she can help us with this one.

We've also heard that as part of the personnel policies, if you have term employees and if they are in continuous employment for three years or more, either they automatically become or they're required to become permanent staff. We've heard the department's practice is to wait until the very end of the third year and lay them off and find somebody else, or do I don't know what.

Can you tell us how common that is within the forces? I think this is on the civilian side. Do you have any numbers in terms of the number of term employees you have? And are you forced to do this for some reason, to lay people off because you can't hire them permanently? What's the problem here? Because it seems to be rather arbitrary that someone is doing a job, and because this deadline comes up all of a sudden they're gone.

Mrs. Cynthia Binnington (Assistant Deputy Minister, Human Resources - Civilian, Department of National Defence): Thank you. I'd be pleased to speak to that particular issue.

Use of term employees within a large organization like ours is an important part of our flexibility in terms of managing our workforce. As you know, we've had very significant operational pressures and we've had a very large number of our military personnel deployed and moved into other activities, particularly during this period of high operations.

On the periods of time for term employees, it is very much Treasury Board policy, as the employer. It's the Government of Canada policy, which we respect and oversee and try to ensure it's well communicated to our managers. When there are pressures, people are asked to take a look at the risks associated with managing their overall long-term costs.

We've certainly instructed people and have recently provided some clarification around ensuring that we not only respect the policy, but the spirit of the policy, and watch how terms are used and align our business planning and our human resources, our people management planning. So we work very hard at trying to ensure that kind of thing doesn't happen, that we keep and respect the policies of the board and collective agreements.

Mr. Jack Harris: Of course, one other important part would be to respect the needs of an employee in this circumstance. Are the employees who might be laid off because of this Treasury Board policy available for rehire, or are you required to hire somebody else? Or if there's still a need for that work to be done and there's no full-time position created for that, can you go back to the person who

was laid off because of that policy and say you'd like to rehire them as a term employee in three months' time or whatever? Can you explain that for us?

Mrs. Cynthia Binnington: There are very specific conditions around the continuation of work and the nature of the work. It's difficult. I don't know of any particular case you're dealing with at this point—

Mr. Jack Harris: I'm not speaking of an individual case, but just in terms of overall policy.

Mrs. Cynthia Binnington: Overall policy—that person would be available for additional work in the future, yes, whether or not it was the same work in that specific position. They're generally not used for the continuation; it's not a continuation of work issue. If it's a continuation of work issue and the manager deems it goes beyond the three years, that person would be eligible under the policy to be rolled over as an indeterminate employee.

The Vice-Chair (Mr. Chris Warkentin): Thank you, madam, gentlemen. We thank you for your testimony this afternoon.

We thank you for your service to your country and your efforts to provide our armed forces, of which we're all very proud, with everything they need. So we do thank you and we thank our forces for their service and commitment to our country.

We'll now suspend for a short time and go in camera for committee business.

Thank you.

[Proceedings continue in camera]

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